

Message Text

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PAGE 01 BRASIL 04831 011435Z

46

ACTION EB-11

INFO OCT-01 ARA-16 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 L-03

H-03 PA-03 PRS-01 AGR-20 USIA-15 RSR-01 /171 W

----- 109529

R 011425Z AUG 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 8910

INFO AMCONSUL RECIFE

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS: EFIN BR

SUBJECT: CENTRAL BANK LENGHENS MINIMUM TERMS ON FOREIGN
FINANCIAL CREDITS

REF: (A) BRASILIA 3748 (B) BRASILIA 4591

1. CENTRAL BANK SOURCE HAS CONFIREMD REPORT THAT ON
JULY 19 NATIONAL MONETARY COUNCIL TOOK UNPUBLICIZED
DECISION TO LENGTHEN MINIMUM REQUIRED TERMS FOR FOREIGN
FINANCIAL CREDITS TO BRAZIL FROM 8 YEARS TO 10 YEARS.
SOURCE SAID REASONS FOR DECISION WERE THREEFOLD: TO
REDUCE RATE OF INFLOW OF NON-COMMERCIAL CREDITS FROM
ABROAD, TO FURTHER STRETCH-OUT MATURITY PROFILE OF
BRAZIL'S FOREIGN DEBT, AND TO DIMINISH IMPACT OF EXTERNA
PRESSURES ON DOMESTIC MONEY SUPPLY AS PART OF GOVERNMENT'S
EFFORT TO MEET 1973 INFLATION TARGET. SOURCE SAID THAT
AUTHORITIES ALSO HOPED NEW REQUIREMENT WOULD HAVE EFFECT
OF SLOWING DOWN RATE OF FOREIGN EXCHANGE RESERVE ACCUMULA-
TION. GOB DOES NOT HAVE ANY FIXED POLICY ON RESERVES
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PAGE 02 BRASIL 04831 011435Z

LEVEL, BUT PRESENT LEVEL OF ABOUT \$5.5 BILLION IS REGARDED

AS COMFORTABLE TO HANDLE ANY POSSIBLE FUTURE CONTINGENCY.

2. COMMENT: MONETARY COUNCIL'S MOVE CAME JUST FIVE WEEKS AFTER ACTION THAT INCREASED MINIMUM TERM FROM 6 TO 8 YEARS. (REF A) DECISION INDICATES A TOUGHENING IN GOB MEASURES TO DEAL WITH INFLOW OF FOREIGN FUNDS, SINCE CENTRAL BANK OFFICIAL STATED THAT PURPOSE WAS TO REDUCE NET INFLOW RATHER THAN PREVENT INCREASE ABOVE CURRENT VOLUME (WHICH WAS OFFICIAL EXPLANATION OF JUNE ACTION). OFFICIAL ACKNOWLEDGED THAT GOVERNMENT'S OPEN MARKET OPERATIONS HAVE BEEN ONLY PARTIALLY SUCCESSFUL IN NEUTRALIZING INFLATIONARY IMPACT OF FOREIGN FUNDS THROUGH DOMESTIC MONEY SUPPLY, INDICATING THAT AUTHORITIES PREVIOUSLY UNDERESTIMATED EXTERNAL PRESSURES ON INFLATION OR, MORE LIKELY, THAT DOMESTIC MONETARY AND FISCAL EFFORTS TO CONTAIN RISING PRICES HAVE FALLEN SHORT OF EXPECTATIONS. WHILE IT IS TOO EARLY TO MEASURE EFFECTIVENESS OF JULY 19 ACTION, CENTRAL BANK OFFICIAL COMMENTED THAT AS OF JULY 31 THERE HAD BEEN NO APPRECIABLE CHANGE IN RATE OF INFLOW OF FOREIGN FUNDS.

3. EMBASSY OFFICER NOTED THAT NEW 10 YEAR REQUIREMENT MAY POSE DIFFICULTIES FOR AMERICAN BANKS OPERATING IN BRAZIL. OFFICIAL RESPONDED THAT THIS MAY BE SO FOR SOME U.S. BANKS BUT NOT ALL, SINCE SEVERAL HAVE ALREADY BEEN EXTENDING 10 YEAR CREDITS.
CLEVELAND

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